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AZ CORP COMMISSION  
DOCKET CONTROL

November 30, 2007

**HAND DELIVERED**

Jerry D. Anderson  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Arizona Corporation Commission  
**DOCKETED**

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Re: Morenci Water & Electric Company's PPFAC Rate  
Docket No. E-01049A-04-0936

Dear Mr. Anderson:

I am writing with respect to the PPFAC bank balance for Morenci Water & Electric Company ("MWE"). Decision No. 68438 (February 2, 2006) established an over-collected threshold level of \$200,000 for MWE's PPFAC bank balance. Decision No. 68438 noted, in Finding of Fact No. 3, that the intent of the threshold "is to trigger some type of action by the Company to come to the Commission to address the bank balance when it reaches or exceeds a designated level. . . . The threshold simply serves as a review point to highlight that the bank balance is becoming relatively large, and the Company should come to the Commission in some manner to address it. The Commission may or may not choose to act on it at that time." This letter is intended to inform the Commission that the MWE PPFAC bank balance has exceeded the over-collection threshold and to provide the Commission with information that supports simply maintaining the current PPFAC at this time.

As the attached spreadsheets indicate, MWE's bank balance has exceeded the \$200,000 threshold level and will remain above that level by the end of December, 2007. However, in 2008, MWE's unit cost for purchased power will rise from \$0.04837 per kWh to \$0.06315 per kWh. This unit cost will rise again to \$0.06880 per kWh in 2009. With the current PPFAC rate of (\$0.01900), the total rate collected from customers will be \$0.05622 per kWh, which is \$0.00693 per kWh less than the actual cost for purchased power in 2008, and \$0.012580 per kWh less than the actual cost for purchased power in 2009.

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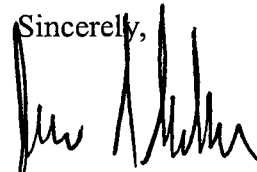
Jerry D. Anderson  
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As a result, as set forth in the attached spreadsheet, MWE anticipates the PPFAC bank balance will be approximately \$120,000 over-collected by the end of 2008. By the end of 2009, MWE anticipates an *under-collection* of over \$275,000. These calculations assume that the current PPFAC rate of negative \$0.01900 per kWh (set in Decision No. 68813 (June 29, 2006)) remains in place. Adjusting the PPFAC rate now to reduce the over-collected balance at a greater rate will exacerbate the under-collected balance later and will require an increase in the PPFAC rate in the near future (probably within the next twelve to fifteen months). Therefore, MWE customers would experience an oscillating rate over a short period of time if the PPFAC rate is adjusted now to address the temporary over-collection above the threshold.

MWE believes that the intent of establishing the threshold levels in Decision No. 68438 was to examine current purchased power costs and market conditions and to determine whether a change in the PPFAC rate is appropriate. For the reasons set forth above, MWE believes that an adjustment to its PPFAC rate at this time is not necessary, appropriate or in the public interest. Should, however, Staff feel differently, then MWE requests that this letter be treated as a new application to review the PPFAC rate for MWE.

Please contact me if you have any remaining questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jason D. Gellman', written over a horizontal line.

Jason D. Gellman  
For the firm

cc: Kim Battista, Compliance Section Chief, Utilities Division  
Christopher Kempley, Chief Counsel  
Docket Control (13 copies)

<b>Present PPFAC Rate per kWh</b>		<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>1</b>	<b>Beginning Bank Balance - Under (Over)</b>	(\$128,774)	(\$369,747)	(\$121,271)
<b>2A</b>	<b>Jurisdictional Sales</b>	30,948,234	30,710,455	30,150,167
<b>2B</b>	<b>Total Sales(incl Spec Cont)</b>	1,879,307,164	2,038,838,716	2,023,548,218
<b>2C</b>	<b>Special Contract Sales</b>	1,848,358,930	2,042,338,499	2,026,747,743
<b>3</b>	<b>Actual Cost of Purchased Power</b>	\$90,900,622	\$128,753,074	\$139,220,880
<b>4</b>	<b>Unit Cost of Purchased Power</b>	0.048369	0.063150	0.068800
<b>5</b>	Authorized Base Cost of Pur. Pow: Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522
<b>6</b>	Supplemental PPFA per Decision No. 61298 Dated 12/98	(\$0.01900)	(\$0.01900)	(\$0.01900)
<b>7</b>	<b>Total Rate Collected From Customer</b>	\$0.05622	\$0.05622	\$0.05622
<b>8</b>	<b>Incremental Difference between authorized and actual recovery:</b>	(\$0.00785)	\$0.00693	\$0.01258
<b>9</b>	<b>Net change to Bank balance:</b>	(\$240,972)	\$248,475	\$397,264
<b>10</b>	<b>Adjustments to Bank Balance</b>	\$0	\$0	\$0
<b>11</b>	<b>Preapproved DSM costs</b>	\$0	\$0	\$0
<b>12</b>	<b>Ending Bank Balance:</b>	(\$369,746)	(\$121,272)	\$275,993

[illegible]

Ending Bank Balance from Previous Month

[illegible]

Ending Bank Balance from Previous Month

[illegible]